Volatile Energy Market Growing Factor in U.S. Energy Policy Debate

Maureen Lorenzetti
Washington Editor

WASHINGTON, DC, Apr. 10 --White House officials and pro-industry lawmakers hope ongoing events in the Middle East and Venezuela will help build interest in a U.S. energy policy agenda that encourages domestic drilling, including leasing a portion of the Arctic National Wildlife Refuge.

Sen. Frank Murkowski (R-Alas.), ranking member of the Senate Energy and Natural Resources Committee, called on the Department of Energy to assess by Apr. 11 "the best assessment of the impacts to the United States of a possible cutoff of energy imports from Venezuela and the Middle Eastern OPEC [Organization of Petroleum Exporting Countries] members."

Murkowski said DOE should include "the impacts on the price of oil in the United States, both short and mid-term as well as the estimated consequences to the nation's economy and our citizens."

Bill status unknown
Whether the Senate can reach a consensus on a comprehensive energy bill remains uncertain, according to lawmakers and lobbyists who follow the issue. Hoping to build interest in their agenda, the secretaries of the Interior and Energy came to Capitol Hill stressing the need for ANWR exploration in light of what they labeled as "instability" from some of the U.S.'s key suppliers.

Iraq's call for a new Arab oil embargo has not been taken too seriously by the White House yet: Saudi Arabia says it has no intention of stopping supplies, and fellow OPEC members Iran and Libya have suggested they would consider an embargo only if the Saudis agreed—a very unlikely scenario.

Under existing executive orders renewed by President George W. Bush, U.S. companies are already prevented from buying oil from Iran or Libya. However oil companies may still buy crude from Iraq under a United Nations humanitarian program designed to provide food and medicine to sanctions-beleaguered Iraqi citizens and keep petrodollars out of the hands of Iraqi President Saddam Hussein. The U.S. has imported as much as 1 million b/d under this "oil-for-aid" program until Iraq this week carried out a threat to suspend exports for 30 days because of U.S. support of Israel.

But analysts predict Iraq exports could be off the market even longer.

"The potential loss of Iraqi oil seems big," noted oil analyst Adam Sieminski of Deutsche Bank AG. "UN[-monitored] exports [of Iraqi oil] have averaged about 1.5 million b/d since December. Smuggling and other non-UN shipments of 0.5 million b/d continues. Saddam is looking for a way to shore up relations with the Arabs to prevent the U.S. from acting tough against his regime.

"Exports might not be back soon, despite the talk of 30 days. There's not that much storage in Iraq [around 4 million bbl at Mina al-Bakr] or at Ceyhan [around 9 million bbl], so the loss will be felt: 30 [days] x 1.5 million b/d = 45 million bbl—that is a lot," Sieminski said.

Even more troubling to U.S. policymakers are escalating labor problems in nearby Venezuela. That country is the U.S. fourth largest source of imports behind Mexico, Canada, and Saudi Arabia. Analysts say at least half of Venezuela's 2.2 million b/d of crude oil and refined product shipments are at a standstill because of shipping delays.

No panic yet

Meanwhile, non-OPEC countries are still on the sidelines; even the U.S.'s closest allies have signaled that oil prices need to go at least to $30/bbl before they will consider expanding production. And although the White House continues to say it is worried about the effect higher oil prices could have on the U.S. economy, policy-makers clearly are not ready to take drastic measures just yet, even if it is an election year.

Energy Sec. Spencer Abraham told reporters after a Capitol Hill meeting he did not anticipate a need in the immediate future to release oil from the Strategic Petroleum Reserve; however, President Bush, in an interview in the Wall Street Journal, suggested an SPR withdrawal or a temporary suspension of a portion of the gasoline tax could be possible options if gasoline prices skyrocket because of sudden supply disruptions (OGJ Online, Apr. 8, 2002). Gasoline prices are not expected to be as high as last summer's record levels but will still be the third highest ever according to a new report by DOE. DOE said it is monitoring prices to see if they start rising precipitously, and the agency reactivated a consumer hotline for motorists to report possible price gouging at retail service stations.

On Apr. 9, Abraham directed DOE's Energy Information Administration to produce its Energy Situation Analysis Report each weekday in response to world events, including increased tensions in the Middle East, Iraq's announcement that it will stop exporting oil, and labor problems in Venezuela. The change was to take effect immediately.

EIA produces the ESAR during emergency situations to monitor events that could cause disruptions in supplies stemming from volatile international situations, such as the Persian Gulf crisis of 1990-91 and the Year 2000 computer transition. The reports have been produced semiweekly since October in response to the U.S. campaign against terrorism spurred by the attacks in New York City and Washington, DC, on Sept. 11, 2001.

Energy policy debates

After debating the measure for 18 days, the Democratic-controlled Senate set aside a controversial energy derivative proposal that seeks to prevent another Enron Corp. debacle by imposing much tighter regulatory oversight on many financial risk mechanisms including forward contracts.

The proposal, sponsored by Sen. Dianne Feinstein (D-Calif.) is opposed by President George W. Bush and Federal Reserve Chairman Alan Greenspan. Many Democrats support her plan but there was not enough backing to force it into the bill.

A bipartisan group of lawmakers from energy-producing states object to the Feinstein amendment because they say it limits a company's ability to manage risk. Feinstein said there are still misperceptions about the bill, which she says will not impact the financial derivatives market. She said she plans this spring to visit Wall Street and explain her proposal because without tighter regulations" other companies could go down the tubes too."

Wall Street analysts generally maintain that it was not the structure of energy markets that led Enron to implode; rather, it was the officers and consultants associated with the company that illegally hid key financial information from shareholders that led to the company's collapse.

ANWR questions
Also still to be decided is a possible ANWR leasing amendment and energy tax incentives. Even if ANWR is not considered in the Senate bill, it still must be considered at least one more time by lawmakers. A comprehensive energy bill that passed the Republican-controlled House in August already contains the measure. That means if the Senate does pass an energy bill, lawmakers will still have to address the issue when the two bodies meet in conference to negotiate a final bill to be sent to the president.

Other controversial issues are also likely to resurface, including automobile fuel efficiency standards and a proposal to streamline clean fuel rules that includes an ethanol mandate proposal opposed by refiners. Lawmakers from California and the Northeast say the ethanol mandate will drive gasoline prices higher even under normal market conditions.